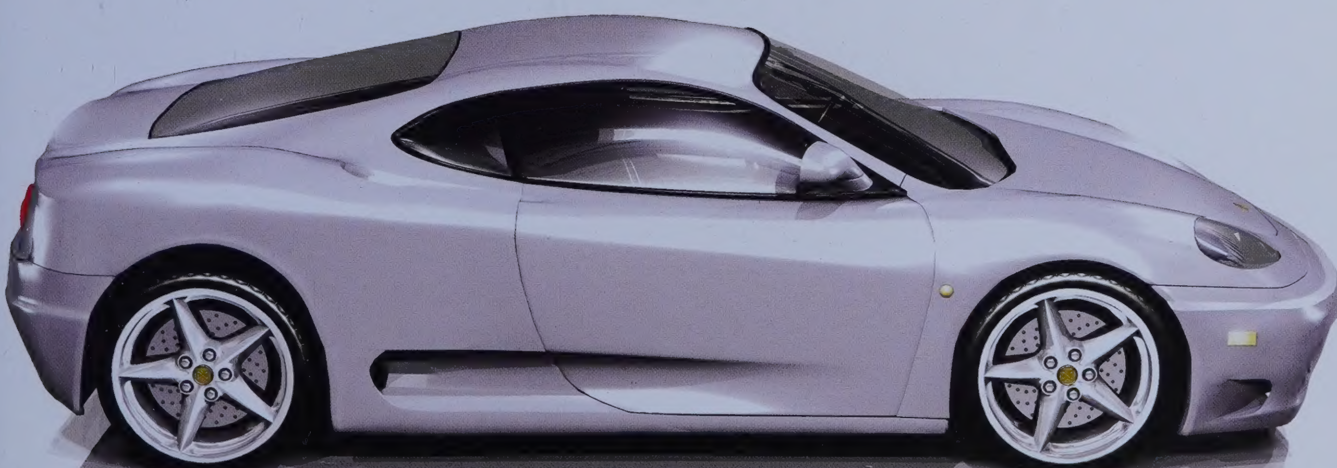
2005

MEGAWHEELS TECHNOLOGIES INC.

ANNUAL REPORT



PARTNERS IN MARKETPLACE CREATION

JOIN US FOR THE 2006AGM

Megawheels Technologies Inc. cordially invites the Shareholders to attend the 2006 Annual General Meeting to be held at the offices of McCarthy Tétrault, Barristers and Solicitors, 3300, 421 – 7th Avenue S.W., Calgary, Alberta, T2P 4K9, on Thursday, January 19, 2006 at 11:00 A.M., MST.

Shareholders Message
November 21, 2005

Dear Shareholder:

We are pleased to provide our financial results for the fiscal year ended August 31, 2005.

	12 months Sept/04-Aug/05	12 months Sept/03-Aug/04		12 months Sep/04-Aug/05 Excluding Sale of Drive DMS	12 months Sep/03-Aug/04	
Net Income (Loss)	$116,954	($755,085)	115%	(453,998)	($755,085)	40%
Net Loss per Share – Basic and Diluted	$0.00	($0.03)	100%	($0.01)	($0.03)	33%

The Company recorded a Net Profit of $116,954 for the year ended August 31, 2005 representing a 115% improvement from a Net Loss of ($755,085) in fiscal 2004. Cash used in operations amounted to ($269,160) representing a 39% improvement to the ($438,415) of cash used in operations during 2004. Total cash generated during Fiscal 2005 was $503,744, an increase of 645% from cash used of ($92,383) in Fiscal 2004 . These results include sale of the Company's Drive DMS assets, which will permit a greater level of operational and R&D focus by Megawheels on classified advertising solutions in 2006.

Excluding the sale of Drive DMS, the Company recorded a Net Loss of ($453,998) for the 2005 fiscal year, representing a 40% reduction from the fiscal 2004 loss of ($755,085). EBITDA Loss was reduced by 33% to ($285,176) in comparison to fiscal 2004. The Company's operating revenues declined by 9% to $2,107,371in 2005 from $2,595,316 in 2004, while overall earned revenue increased by 10% to $2,848,011.

2005 Highlights
The Company's partnership with **CanWest MediaWorks Publications Inc**. commenced effective July 1st, 2005. Automotive dealers in the Greater Toronto Area are now receiving significantly more online media power through the successful re-launch of **driving.ca** than was previously experienced with the Globe and Mail. In addition, **The National Post's** newly named **Driving** section appearing each Friday, has now become the leader in depth of auto classified content amongst GTA newspaper inserts.

"We are very pleased with our Megawheels partnership," says Arturo Duran, President, Interactive and Business Integration, CanWest MediaWorks. "We have clearly accelerated business for CanWest with another best-of-breed advertising solution, and at the same time we have positioned the National Post with e-commerce leadership amongst our portfolio of newspapers with this success in reverse publishing."

"driving.ca is the most comprehensive automotive destination in Canada and we are in full scale national promotion across all the media assets of CanWest," says Laura Pearce, Director and General Manager, Online Autos, CanWest Interactive. These assets include 11 daily newspapers that provide total print circulation of over 1.5 million copies per week, a television audience through **Global** and **CH TV's** 18 million viewers with production of DrivingTV and ***War of the Wheels***, online advertising through the **canada.com** network, the country's leading news and information website with over 3 million visitors per month, in combination with externally purchased radio, outdoor and online advertising. Ms. Pearce also stated, "This is a substantial commitment to brand promotion by Canada's largest media company, which now follows a great turnkey GTA implementation by Megawheels."

Megawheels also reported 50% growth in the number of auto dealers in **Albertawheels.com** over the past quarter and successful completion of Phase 1 expansion to the Calgary marketplace in partnership with **The Greatwest Newspaper Group**. Phase 2 of this in-house brand's regional expansion to Central and Southern Alberta is underway, including the increase of private party targets for further growth of the leading marketplace in Alberta by Albertans.

The **Brunswick News** group continued its leadership among newspaper sites in the Maritimes with **Canadaeast.com** combined with distribution of its printed automotive insert in all major daily papers of the province. The anniversary edition of **Wheels** last month was the largest section publication ever for **Brunswick News**.

Within our international customers, the **Irish Times** also recently published its largest ever **Property** section and continues its growth in profitability, assisted by Megawheels' integration with the newspaper of both their real estate and automotive portals in **nicemove.ie**. Customer demand for our real estate product is finally beginning to materialize in North America and we are optimistic that 2006 will evidence increased sales for the Company from our solutions in both the automotive and real estate sectors.

We are very pleased to announce the promotion of Robert Jolly to the position of President and CEO following his prior roles of COO and Chief Technology Officer. I will continue as Chairman and acting CFO for the Company. Linda MacKenzie who joined the Company in June of 2004 as Director of Administration and Client Services has been promoted to Vice President, Operations and Danielle Leger, Corporate Controller has expanded her role to include an appointment as Assistant Corporate Secretary of the Company. Megawheels also opened an office in Albany, New York, with the hiring of James Lawyer as Vice President Sales and Marketing. Mr. Lawyer joins the Company after working the past four years with a U.S.-based competitor.

We can also confirm the full receipt by year-end of all proceeds contracted from the sale of our Drive DMS assets for cash to PBS Systems Inc. This has resulted in PBS becoming the largest Canadian dealer management system company and has accelerated product innovation for dealers using the Drive DMS product. This has also created a new strategic partner for Megawheels and has enabled our continuing R&D focus on media and reverse publishing solutions.

2006 Direction

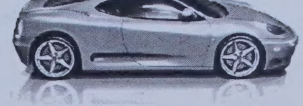
Following solidification of the Company's media partnerships in Canada in 2005, the Company's growth priority for 2006 is sales expansion in the U.S. This will be achieved through a U.S.-based sales force with specific industry expertise and pre-qualified customer interest in a **megawheels.com** affiliate program, together with increased activity for **The New York Daily News** and the Company's traditional custom-branded solutions.

Although Megawheels achieved its first profitable year in 2005, the objective for 2006 is to deliver sustainable EBITDA positive operations to stakeholders. We believe that cash on hand is sufficient to fund our current plan to profitability and additionally, management continues to develop accelerated R&D strategies for future planning.

We are grateful to our Board of Directors who guided the Company's turnaround efforts in 2005 and we are particularly thankful for the entrepreneurial spirit that is shared amongst our employees, who continue to show a professional dedication to our customer's success.

Sincerely,

T. Christopher Bulger, CFA
Chairman of the Board



Management Discussion and Analysis
October 15, 2005
Fiscal Year Ended August 31, 2005

Overview

Founded in 1995, Megawheels Technologies Inc. (TSX: MWT) is an international provider of services and systems connecting newspapers to their advertising communities. The Company provides custom branded websites for the newspapers embedded with classified advertising technology.

The key competitive advantage lies in advanced searching capabilities and the proprietary integrated software that links inventory with an electronic publishing capability to produce traditional classified print advertising.

In addition to the high level of Customer Service provided to all newspaper partners, automotive dealers, real estate agents, and consumers, Megawheels is committed to providing quality software solutions that address the needs of the marketplace.

Our corporate headquarters are in Calgary, Alberta; this facility houses management as well as sales and marketing, customer support, technology development and administrative departments. We maintain offices in Toronto and Dublin, Ireland, which house executive management, customer support and administrative personnel.

Selected Financial Information
Income Statement (for the years ended August 31)

	2005	2004	2003
	$	$	$
Revenue	**2,107,371**	2,595,316	2,399,084
Net Income (Loss)	**116,954**	(755,085)	(1,549,064)
Per common share	**$0.00**	($0.03)	($0.07)

Balance Sheet

(as at year ending August 31)	2005	2004	2003
	$	$	$
Current Assets	**872,374**	589,630	701,376
Capital and other Assets	**98,256**	329,768	418,686
Total Assets	**970,630**	919,398	1,120,062
Current Liabilities	**293,093**	581,275	1,124,773
Capital Lease Obligations	**7,499**	11,316	40,271
Lease Inducement Liabilities	**25,557**	-	-
Shareholders' equity (deficiency)	**644,481**	326,807	(44,982)
	970,630	919,398	1,120,062

During 2004, the Company entered into new media contracts with the Red Deer Express and the Londoner, and began to recognize revenues from a new Real Estate agreement with the Irish Times resulting in an increase in revenues over fiscal 2003. During 2005, the Company sold its Drive Assets to PBS Systems of Calgary, which resulted in a reduction in revenues of approximately $230,000 during the fourth quarter of the year. There was a further decrease of approximately $240,000 due to the cancellation of the agreement with Associated News Limited. Overall, revenues from media contracts increased during 2005 by approximately $16,000 over fiscal 2004.

The Company has continued to focus on reducing discretionary costs; thus, overall operating expenses have decreased year over year since 2001. The Company's depreciation and amortization expenses have also decreased sequentially year over year, as the result of a write-down of certain capital assets to their estimated net recoverable amount during fiscal 2002. This decrease is expected to continue into 2006 with the sale of the Drive assets and the further write-down of capital assets at the end of the third quarter of this fiscal year.

The net loss for fiscal 2003 included a foreign exchange gain of $222,445 on $ US denominated convertible debentures and a one-time loss on conversion of debentures of $50,000. Interest expense for fiscal 2004 continued to decrease as a result of the conversion of most of the Company's debt. The interest expense incurred in fiscal 2005 is mainly attributable to interest on the Company's long-term capital lease obligations.

Results of Operations
For the fiscal year ended August 31, 2005, the Company reported an overall net income of $116,954, compared to an operating and net loss of $755,085 for fiscal 2004. These results reflect a 115% year-over-year improvement. The net loss for 2004 has been adjusted to include a stock-based compensation expense of $115,620.

Revenue
Earned revenue for the 2005 fiscal year ended August 31, 2004 decreased 19% to $2,107,371, compared to $2,595,316 in fiscal 2004. The decrease was primarily due to the sale of the Company's Drive assets and the conclusion of the Company's contract with Associated News Media in the United Kingdom; this was offset by a slight increase in the Company's other media revenues.

The Company earns revenues from providing custom branded websites for those newspapers embedded with classified advertising technology. During fiscal 2006, the Company will be launching a real estate offering customized for the North American market, and is further focusing sales efforts in the United States.

Operating Costs

General and Administrative. General and administrative expenses consist primarily of administrative salaries, rent and professional fees. During fiscal 2004, general and administrative expenses were $939,216; during fiscal 2005, these costs were reduced to $743,897, a 21% improvement overall. In 2005, the Company settled an unlawful dismissal claim brought by a former Executive Vice President for a cash payment of $50,000. The Company provided for the expense in a prior year, therefore the payment did not adversely affect the Company's operating results for this year.

Sales and Marketing. Sales and Marketing expenses include expenses for sales commissions, salaries, advertising, tradeshows, promotional materials and other selling and marketing related activities. During fiscal 2004, these expenses totalled $229,078; during fiscal 2005, these expenses totalled $112,185, a decrease of 51%. The decrease is due primarily to reduced travel and the effect of a reduction in headcount in this area. Management expects selling and marketing expenses to increase in fiscal 2006 as the Company expands selling and marketing activities in the United States.

Customer Support. Customer Support expenses consist primarily of salaries, customer support, production and layout and on-site client services. During fiscal 2005, Customer Support expenses totalled $1,096,007, a decrease of 9% when compared to $1,209,191 spent during fiscal 2004. These costs are expected to remain constant during 2006 as the Company realizes headcount reductions in Canada offset by increased staffing to support new media clients in the United States.

Software Development and Support. Software development and support expenses include salaries and other direct costs associated with the development of new products and the support of internal network operations. Overall, software development and support costs were $428,447 during fiscal 2005, compared to $649,442 during fiscal 2004, a decrease of 34%.

Software development costs were $432,480 for the year ended August 31, 2004, reduced during 2005 to $260,781, due mainly to a reduction in headcount. Software development during fiscal 2005 focused on additional Microsoft .Net automotive media product offerings and the customization of the Company's real estate product for the North American market expected to launch during fiscal 2006.

Interest Expense. Interest expense for fiscal 2005 decreased by 94%, from $80,701 during fiscal 2004 to $5,232 during fiscal 2005. This decrease was largely due to the reduction in debt levels during 2004.

Depreciation and amortization. Depreciation and amortization expense was $92,550 for fiscal 2005, compared to $130,846 for fiscal 2004, a decrease of 29%. The decrease was due to the reduced depreciable asset base.

Summary of Quarterly Results
The following table sets forth certain unaudited information for each of the most recent quarters, the last quarter ending on August 31, 2005. The information is derived from the Company's unaudited consolidated financial statements that, in Management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements; they include all adjustments necessary for a fair presentation of the information offered. Past performance is not a guarantee of future performance, and this information is not necessarily indicative of results for any future period.

2005	Q1	Q2	Q3	Q4
Revenues	**650,299**	**610,563**	**577,081**	**269,428**
Net Income (Loss)	**(65,736)**	**(124,462)**	**485,495**	**(178,343)**
Basic & Diluted income (loss) per share	**(0.00)**	**(0.01)**	**0.02**	**(0.01)**

2004	Q1	Q2	Q3	Q4
Revenues	627,895	658,560	649,231	659,630
Net Loss	(266,563)	(201,544)	(152,915)	(134,063)
Basic & Diluted loss per share	(0.01)	(0.01)	(0.01)	(0.00)

The progress reflected in the results of both fiscal 2004 and 2005 is directly attributable to the extensive business improvement and cost containment measures taken in the past. The Company will continue these efforts, in combination with pursuing ongoing strategies to deliver superior products and customer service to existing and future customers.

Fourth Quarter

Revenues decreased during the fourth quarter due to the absence of the Drive revenues and a decrease in media revenues with the cancellation of the contract with the Globe and Mail. Further expense reductions were realized related to the loss of those revenues.

During the quarter, the Company launched driving.ca/Toronto with CanWest Mediaworks Publications as well as its new local automotive website, AlbertaWheels.com for both auto dealers and local consumers to advertise their used vehicle inventory. Though the revenues associated with these new ventures were not sizeable during the quarter, Management believes they will increase in future periods.

Megawheels experienced no extraordinary items, or material adjustments during the quarter or at year-end, other than that anticipated in the normal course of business.

Taxes

In light of continuing operating losses, the Company has again provided a valuation allowance for the full amount of future income tax assets at August 31, 2005. Accordingly, there are no future income tax recoveries reflected in the current or prior years' statements of operations. At August 31, 2005 the Company has significant loss carry-forwards for income tax purposes that may be applied against the taxable income of future years. These are comprised of approximately $15 million of Canadian losses, $370,000 of U.S. losses, $1.6 million of losses from the U.K. operations, and $16,000 of Irish losses.

Financial Condition and Liquidity

As at August 31, 2005 the Company had cash of $650,076 compared to $146,332 at August 31, 2004. Cash used in operating activities decreased from ($438,415) in fiscal 2004 to ($269,160) for the fiscal year ending August 31, 2005.

Negative EBITDA (Earnings before Depreciation Interest and Taxes) decreased from ($1,296,530) in fiscal 2003 to ($427,918) during fiscal 2004 and to ($285,176) during fiscal 2005 representing improvements of 67% and 36% in cashflow as defined by EBITDA. The Company measures EBITDA by calculating earnings before interest, taxes, depreciation and amortization, non-cash employee expenses, sale of assets, and write down of assets. While not a standard measurement under Generally Accepted Accounting Principles, the Company believes EBITDA is an appropriate measure of operating performance. However, EBITDA could be defined differently by other companies and should be considered in addition to, not as a substitute for other measures of financial performance, including revenues and operating income. The decrease resulted from Management's focus on reducing overall discretionary costs. The Company's working capital surplus was $579,281 compared to a deficit of $8,355 for the 2004 fiscal year end, a result of the proceeds received on the sale of the Drive assets.

Business Risks and Uncertainties

Limited Operating History; Uncertainty of Future Operating Results. The Company has recorded net losses for each year since its predecessor was incorporated on April 29, 1998. Due to the Company's short operating history, the uncertainty of lasting acceptance of the Company's products, the rapid evolution of competitive software products, and the other risk factors discussed below, there can be no assurance that the Company can either ensure revenue growth or achieve and sustain profitability or positive cash flow from future operations.

Ability to Raise Capital. While Management expects the funds raised through the sale of the Company's Drive assets should provide adequate working capital to sustain the Company until profitability. These funds would not provide enough cashflow should increased losses arise due to unforeseen circumstances. The Company may need to raise additional funds through financing which may or may not be available on acceptable terms, if at all. Although no assurances can be given, based on the Company's continued ability to reach operations and development targets, Management expects that the Company will succeed in raising additional capital to meet growth requirements.

Dependence on Key Personnel and Management of Growth The success of the Company depends upon the continued support of key members of senior Management, including Christopher Bulger, Chairman and Chief Executive Officer and Robert Jolly, President. The loss of the services of one or more of these key personnel could have an adverse material effect on the Company. There can be no assurance that the Company will be able to retain these individuals or to recruit other qualified personnel. The Company believes that future success will also depend in large part on the ability to attract and retain highly skilled technical, managerial and sales personnel. As the Company continues to grow, existing personnel will be given increased responsibilities. There will be hiring of additional personnel and in general, higher operating expenditures. To successfully manage current operations and any future growth effectively, the Company must continue to improve operational, financial and management information systems; to hire, manage and retain employees; to integrate technologies and personnel with existing operations and to maintain a corporate culture that promotes technical and customer service standards. There can be no assurance that the Company will be able to manage growth effectively, or that the management, personnel or systems will be adequate to support growth in the Company's operations.

Product Development and Technical Change.The market for the Company's software products is constantly evolving and new product enhancements are regularly introduced. To compete successfully, the Company must continue to develop and create new products and upgrade existing products that reflect technological changes and market developments in database technology platforms, operating systems and hardware platforms. Such product development may require that the Company continues to invest in research and development on an ongoing basis. The new product development cycle may be significantly longer than the development cycles for previous products and upgrades. The introduction of products embodying new technologies could cause existing products, and products currently under development, to become obsolete and unmarketable. The Company's future success will depend on the ability to enhance current products and to develop and introduce new products that stay current with technological developments, so responding to customer requirements and achieving market acceptance. There can be no assurance that the Company's future products or enhancements will keep pace with technological change or satisfy market needs, or that the Company will successfully develop or market any future products.

Software Defects. The Company's products are technically complex and may contain undetected performance problems or errors. There can be no assurance that the future discovery of these performance problems or errors will not cause delays in products introduction, require design modifications, or result in damage to the Company's reputation, loss of revenue, loss of market share, delay in market acceptance or product liability, or other claims against the Company. Furthermore, there can be no assurance that the Company will be able to correct any such errors on a timely basis, or at all. Correction of errors or other defects may require significant expenditures by the Company. Provisions contained in the Company's licence agreements that are designed to limit the Company's exposure to potential claims, as well as any liabilities arising from such claims, may not effectively protect the Company against some or all of such claims and the liability and costs associated therewith. Any of these possible occurrences could have an adverse material effect on the Company's business, results of operations or financial conditions.

Network Operations. While the Company makes every effort to ensure the stability and security of its networks and network operations, there can be no assurance that the Company can guarantee the stability and security of these networks. In response to this risk, the Company has signed a co-location agreement with Q9 Networks to reduce the risks to the Company's client servers. The Company cannot provide assurance that Q9 Networks will be able to maintain business operations. There can also be no assurance that the Company can maintain existing relationships with this or other complimentary vendors or to enter into new relationships.

Risks Associated with International Operations. The Company intends to continue to strive for increased international sales, and anticipates that international sales will continue to account for a considerable portion of revenues. These sales are subject to certain risks and costs associated with international operations, including the difficulty and expense of staffing and administration of business abroad, and complications in complying with foreign laws and regulations. In addition, while Canadian copyright law, international conventions and international treaties may provide meaningful protection against unauthorized duplication of software, the laws of some foreign jurisdictions may not honour these rights to the same extent as the laws of Canada. Software piracy has been, and can be expected to be, a persistent problem for the software industry. Although to date the Company has not experienced any of the foregoing factors with its key products, there can be no assurance that these factors will not be experienced by the Company in the future, or that they will not have a material adverse effect on the Company's business, results of operations and financial condition.

Future Operations

The Company's ability to continue ongoing operations is dependent upon the ability to generate sufficient cash flow and to obtain sufficient financing necessary to fund its business to the point of achieving profitable operations. The Company has implemented a restructuring plan designed to improve efficiency, competitiveness, and superior service to existing and prospective clients while ensuring asset protection, adequate staffing, and compliance with government, taxation, securities and other bodies. The Company has incurred negative annual cash flows from operations since inception and expects to continue to expend the funds necessary to carry on developing new technologies.

While we are optimistic that additional working capital raised through the recent sale of the Company's Drive assets may be adequate to sustain the Company while executing a plan to achieve profitability, we also anticipate raising additional resources in order to fund future research and development activities. The Company expects to obtain the additional working capital through the issuances of shares, conversion of warrants and exercise of options. However, the Company cannot provide assurance that efforts to raise such additional financings will be successful. The actual amount of funds that will be required will be determined by many factors, some of which are beyond the Company's control. As a result, it may require funds sooner or in greater amounts than currently anticipated.

Forward-Looking Statements

This Annual Report contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those contained in such statements. Readers are cautioned not to place undue reliance on these statements, which reflect Management's analysis only as the date hereof. Although new material developments will continue to be press-released as they are experienced, the Company undertakes no obligation to publicly release any revision to these forward-looking statements, in order to reflect events or circumstances after the date hereof, or to reflect the occurrence of unanticipated events. Readers are referred to the foregoing Management's Discussion and Analysis, including discussions of financial condition and liquidity and results of operations, which could cause actual results to be materially different from such forward-looking statements.

MANAGEMENT REPORT

To the Shareholders of Megawheels Technologies Inc.

The accompanying consolidated financial statements and all information in the Annual Report are the responsibility of management. The consolidated financial statements have been prepared by management in accordance with the accounting policies in the notes to financial statements. In the opinion of management the financial statement have been prepared within acceptable limits of materiality, and are in accordance with Canadian generally accepted accounting principles appropriate in the circumstances. The financial information elsewhere in the Annual Report has been reviewed to ensure consistency with that in the financial statements.

Management maintains appropriate systems on internal control. Policies and procedures are designed to give reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records properly maintained to provide reliable information for the preparation of financial statements.

Ernst & Young LLP, an independent firm of chartered accountants, has been engaged to audit the consolidated financial statements in accordance with auditing standards generally accepted in Canada and to provide an independent professional opinion.

T. Christopher Bulger
Chairman and Acting Chief Financial Officer

Robert F. Jolly
President and Chief Executive Officer

AUDITORS' REPORT

To the Shareholders of
Megawheels Technologies Inc.

We have audited the consolidated balance sheets of Megawheels Technologies Inc. as at August 31, 2005 and 2004 and the consolidated statements of income - loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
October 3, 2005

Megawheels Technologies Inc.

CONSOLIDATED BALANCE SHEETS

[See Incorporation and Basis of Presentation - Note 1]

As at August 31	2005 $	2004 $ (restated, see note 3)
ASSETS		
Current		
Cash and cash equivalents	**650,076**	146,332
Trade accounts receivable	**193,940**	408,608
Inventory	**—**	6,565
Prepaid expenses and deferred charges	**28,358**	28,125
	872,374	589,630
Capital assets [Note 4]	**98,256**	329,768
	970,630	919,398
LIABILITIES AND SHAREHOLDERS' DEFICIENCY		
Current		
Accounts payable and accrued liabilities	**264,669**	461,731
Deferred revenue	**14,868**	43,115
Convertible debentures/notes [Note 5]	**—**	47,474
Current portion of capital lease obligations [Note 6]	**13,556**	28,955
	293,093	581,275
Capital lease obligations [Note 6]	**7,499**	11,316
Deferred lease inducement [Notes 2 and 13]	**25,557**	—
Commitments and contingencies [Note 13]		
Shareholders' equity (deficit)		
Share capital [Note 7]	**29,744,546**	29,231,696
Shares to be issued [Note 7]	**—**	383,160
Contributed surplus [Notes 5 and 8]	**276,100**	205,070
Deficit	**(29,376,165)**	(29,493,119)
	644,481	326,807
	970,630	919,398

See accompanying notes

On behalf of the Board:

Director

Director

CONSOLIDATED STATEMENTS OF INCOME / (LOSS) AND DEFICIT

For the years ended August 31	2005 $	2004 $ (restated, see note 3)
Revenue	2,107,371	2,595,316
Operating expenses		
General and administrative	743,897	939,216
Sales and marketing	112,185	229,078
Customer support	1,096,007	1,209,191
Software development and support	428,447	649,442
Interest expense [Note 5]	5,232	80,701
Depreciation and amortization	92,550	130,846
Foreign exchange (gain) loss	12,011	(3,693)
Stock based compensation	71,030	115,620
Gain on sale of assets [Note 11]	(740,640)	—
Write down of assets [Notes 2 (j) and 4]	169,698	—
	1,990,417	3,350,401
Net income (loss) for the year [Note 12]	116,954	(755,085)
Deficit, beginning of year	(29,493,119)	(28,677,584)
Adjustment to reflect change in accounting policy [Note 3]	—	(60,450)
Deficit, end of year	(29,376,165)	(29,493,119)
Basic and diluted net income (loss) per share [Note 2(i)]	0.00	(0.03)

See accompanying notes

Megawheels Technologies Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended August 31	2005 $	2004 $ (restated, see note 3)
CASH WAS PROVIDED BY (USED FOR):		
Operating activities		
Net income (loss) for the year	**116,954**	(755,085)
Add (deduct) non-cash items:		
Depreciation and amortization	**92,550**	130,846
Accreted interest expense	**—**	25,451
Interest settled by issuance of shares [Note 5]	**—**	43,756
Stock based compensation	**71,030**	115,620
Gain on sale of assets [Note 11]	**(740,640)**	—
Write down of assets	**169,698**	—
Unrealized foreign exchange gain	**—**	(4,848)
	(290,408)	(444,260)
Net change in non-cash working capital [Note 10]	**21,248**	5,845
Cash used in operating activities	**(269,160)**	(438,415)
Investing activities		
Proceeds on sale of capital assets [Note 11]	**750,000**	—
Purchase of capital assets	**(30,010)**	(41,928)
Cash from (used in) investing activities	**719,990**	(41,928)
Financing activities		
Issuance of preferred shares, net of issue costs	**129,690**	626,648
Repayment of capital lease obligations	**(29,302)**	(36,162)
Repayment of convertible debentures	**(47,474)**	(202,526)
Cash from financing activities	**52,914**	387,960
Increase (decrease) in cash and cash equivalents	**503,744**	(92,383)
Cash and cash equivalents, beginning of year	**146,332**	238,715
Cash and cash equivalents, end of year	**650,076**	146,332
Supplementary information: Cash interest paid	**3,478**	9,476

See accompanying notes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. INCORPORATION AND GOING CONCERN UNCERTAINTY

Megawheels Technologies Inc. (the "Company" or "Megawheels") is incorporated under the laws of Canada and operates in one principal business segment as a provider of internet-based automotive and real-estate marketing databases and automotive and real estate print advertising systems and services in Canada, the United States, the United Kingdom, and Ireland.

The accompanying consolidated financial statements have been prepared by Management in accordance with Canadian generally accepted accounting principles on a going concern basis, which presumes the realization of assets and the discharge of liabilities in the normal course of business for the foreseeable future. The Company has incurred significant operating losses and cash outflows from operations and has a deficit of $29,376,165 at August 31, 2005. The Company's ability to continue as a going concern is dependent on achieving profitable operations and upon obtaining additional financing. The outcome of these matters cannot be predicted at this time. These consolidated financial statements do not contain any adjustments to the amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue in business.

2. SIGNIFICANT ACCOUNTING POLICIES

The preparation of the consolidated financial statements, in conformity with Canadian generally accepted accounting principles, requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenue and expenses during the period. Actual results may differ from these estimates. The financial statements have, in Management's opinion, been properly prepared within reasonable limits of materiality, and within the framework of the accounting policies summarized below.

a) Consolidation

These financial statements include the assets, liabilities and results of operations of the Company together with its wholly owned subsidiaries Megawheels Limited, Megawheels Corporation, Megawheels Technologies (Ireland) Limited, 1058626 Alberta Inc. and Megawheels Technologies Partnership. All inter-company transactions and balances have been eliminated upon consolidation.

b) Cash and cash equivalents

Cash and cash equivalents includes investments in highly liquid money market instruments with original maturities of less than ninety days, which are readily convertible to known amounts of cash, subject to insignificant risk in changes of value and which are held to meet operating requirements.

c) Inventory

Inventory consists mainly of computer hardware and is stated at the lower of cost, on a first-in first-out basis, and net realizable value.

d) Capital assets

Capital assets are recorded at cost and amortized based on estimated useful lives as follows:

Computer equipment	50% declining balance
Furniture and equipment	20% declining balance
Software license	Straight line over the 15 year contract life
Leasehold improvements	Over the term of the leases (5 years)
Computer software	Straight line over 3 years

Capital assets under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease, and are amortized based on 50% declining balance.

e) Revenue recognition

Revenue from the sale of dealer management system software is recognized upon the completion of installation and setup. Revenue from equipment sales and installation is recognized in the period in which the installation is complete or, in the event installation is not required, when the equipment is shipped. Licensing fees, user fees, support fees, and data management fees from the dealer management system are recognized as the services are provided. Revenue from website development is recognized in the period in which the services are performed. Revenue from reverse publishing is recognized in the month in which the services are provided.

Payments received in advance of providing the service or delivering the product are recorded as unearned revenue and are included in deferred revenues at August 31, 2005 and 2004.

f) Software development costs
Costs of developing, updating and maintaining internally developed computer software and websites are expensed as incurred. The cost of acquiring third party software is capitalized and amortized over its estimated useful life.

g) Income taxes
The Company follows the liability method of accounting for income taxes. Under this method, the Company records income taxes to give effect to temporary differences between the carrying amount and the tax bases of the Company's assets and liabilities. Temporary differences arise when the realization of an asset or the settlement of a liability would give rise to either an increase or decrease in the Company's income taxes payable for the year or for a later period. Future income taxes are recorded using substantively enacted income tax rates that are expected to apply when the future tax liability is settled or the future tax asset is realized. When necessary, valuation allowances are established to reduce future income tax assets to the amount that is more likely than not to be realized. Income tax expense is the tax payable for the period and the change during the period in future income tax assets and liabilities.

h) Earnings / loss per share
Basic loss per share is calculated using the weighted average number of shares outstanding. Diluted loss per share is calculated in accordance with the treasury stock method. This method assumes that any proceeds from the exercise of a convertible instrument would be used to purchase common shares at the average market price during the period.

The weighted average basic common shares outstanding for the year ended August 31, 2005 was 25,853,970 (2004 - 24,691,418). The weighted average diluted common shares outstanding for the year ended August 31, 2005 was 67,625,048 (2004 – 24,691,418). The effect on earnings per share of the exercise of options and warrants is anti-dilutive fiscal 2005 since the average market price of the common shares exceeds the exercise price of the options and warrants; therefore, they have been excluded from the computation of diluted earnings per share for 2005. All potentially dilutive shares as of August 31, 2004 have been excluded from dilutive loss per share, as their effect would be anti-dilutive for 2004.

i) Foreign currency translation
The Company's foreign operations are considered integrated and are translated into Canadian dollars using the temporal method. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies are translated at rates in effect on the dates the assets were acquired or liabilities were assumed. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. The resulting exchange gains or losses on these items are reflected in net loss in the period incurred.

j) Impairment of assets
In accordance with the CICA issued Handbook Section 3063, "Impairment of Long-Lived Assets", the Company reviews long-lived assets and intangible assets with finite lives whenever events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows, measurement of an impairment loss is based on the fair value of the assets and is charged to operations in the period in which long-lived asset impairment is determined by Management.

k) Deferred lease inducement
Deferred lease inducements represent four months free rent provided by the landlord. Deferred lease inducements are amortized on a straight-line basis over the period of the lease, and the amortization is recorded as a reduction of rent expense.

3. CHANGES IN ACCOUNTING POLICIES

a) Stock-based compensation
On September 1, 2004, the Company retroactively adopted the amended CICA Handbook Section 3870 (Section 3870), standards for "Stock-based Compensation and Other Stock-based Payments." The Company previously accounted for all stock-based payments to non-employees and direct awards of stock using the fair value method. Stock options granted to employees that could only be settled by issuing shares were accounted for using the intrinsic value-based method with pro forma disclosure of the effects of applying the fair value method for employee options granted after September 1, 2002.

The amended section adopted September 1, 2004 requires all employee stock options to be accounted for using the fair value method. In accordance with the section, the Company retroactively applied with restatement of prior periods presented the fair value method to all employee stock options granted on or after September 1, 2002. An amount of $60,450 has been recorded on the restatement as an adjustment to the opening deficit as at August 31, 2003, with an equal amount recorded as contributed surplus. Options are expensed over the vesting period based on the fair value at the date of the grant (see notes 8 and 9). The compensation cost that has been charged against income due to the adoption was $71,030 and $115,620 for fiscal 2005 and 2004, respectively.

4. CAPITAL ASSETS

	2005		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Computer equipment	**877,841**	**829,045**	**48,796**
Furniture and equipment	**291,027**	**265,333**	**25,694**
Software license	**2,000,000**	**2,000,000**	**—**
Leasehold improvements	**69,240**	**47,206**	**22,034**
Computer software	**139,099**	**137,367**	**1,732**
	3,377,207	**3,278,951**	**98,256**

	2004		
	Cost	Accumulated Depreciation and Amortization	Net Book Value
	$	$	$
Computer equipment	1,083,037	1,000,334	82,703
Furniture and equipment	365,716	226,446	139,270
Software license	2,000,000	1,915,867	84,133
Leasehold improvements	46,122	35,097	11,025
Computer software	2,304,068	2,291,431	12,637
	5,798,943	5,469,175	329,768

During 2005, the Company recognized impairment charges of $169,698 on certain fixed assets. At August 31, 2005, Management determined that there were no other triggering events requiring additional impairment analysis.

Included in the value of computer equipment at August 31, 2005 is equipment under capital lease of $76,855 (2004 - $110,635) and accumulated amortization of $59,466 (2004 - $84,434).

5. CONVERTIBLE DEBENTURES/NOTES

	Principal Amount	Debt Component	Equity Component
	$	$	$
Balance, August 31, 2003	618,772	570,247	71,872
Notes converted (a)	(368,772)	(340,850)	(42,872)
Repayment of convertible debt	(202,526)	(202,526)	—
Related accretion during the period	—	25,451	—
Unrealized foreign exchange gain	—	(4,848)	—
Balance, August 31, 2004	47,474	47,474	29,000
Repayment of convertible debt	(47,474)	(47,474)	—
Balance, August 31, 2005	**—**	**—**	**29,000**

(a) On April 24, 2003 the Company issued convertible promissory notes for a total principal amount of $368,772 (US$250,000) maturing one year after the date of issue and bearing interest at 10% per annum. The notes are convertible into 3,073,098 Series C preferred shares of the Company at the option of the holders. The note holders also receive 3,073,098 Series C warrants to purchase Series C shares of the Company at $0.12 per share. 1,536,549 of these warrants have been cancelled (see note 6(e)). Subject to TSX approval, the balance of these warrants are exercisable at any time prior to April 23, 2005. The debt component of these notes was recorded at $325,900, and the discount from the amount payable at maturity is accreted and recorded as interest expense over the terms of the notes. The conversion option, valued at a total of $42,872, was recorded as contributed surplus. These notes converted on May 31, 2004 and July 14, 2004 into 2,840,416 Series C preferred shares. In addition, the holders agreed to accept, subject to TSX approval, 364,633 series C preferred shares in satisfaction of accrued interest of $43,756 (US$32,579).

6. CAPITAL LEASE OBLIGATIONS

The following is a schedule of future minimum lease payments under capital leases expiring in October 2006, together with the balance of the capital lease obligations:

		$
Year ended August 31,	2006	15,572
	2007	4,798
	2008	3,815
		24,185
Less amount representing interest at rates varying between 13.6% and 18.9 %		3,130
		21,055
Less current portion		13,556
		7,499

7. SHARE CAPITAL

Authorized
An unlimited number of common voting shares without nominal or par value.

An unlimited number of voting preferred shares, issued in series, of which 15,000,000 Series A convertible, 15,000,000 Series B convertible shares, and 78,000,000 Series C convertible preferred shares are authorized.

The preferred shares are entitled to preference over the common shares with respect to the payment of dividends and the distribution of assets. Each Series B share carries the right to one-half a vote and is convertible at any time, at the option of the holder, into one-half of a common share. Each Series C share carries the right to vote and is convertible at any time, at the option of the holder, into one common share.

Effective on February 28, 2002, the issued and outstanding common shares of the Company were consolidated on a one-for-two basis, with shareholders holding an odd number of shares receiving full share equivalents. All share amounts have been restated to reflect the consolidation.

Issued

Common Shares	**Number**	**$**
Common shares outstanding, August 31, 2003	24,666,760	22,681,352
Issued on conversion of Series C Preferred Shares	500,000	60,000
Common shares outstanding, August 31, 2004	25,166,760	22,741,352
Issued on conversion of Series C Preferred Shares	2,410,000	289,200
Common Shares Outstanding, August 31, 2005 (a)	**27,576,760**	**23,030,552**

Series B Preferred Shares	**Number**	**$**
Series B Preferred Shares outstanding, August 31, 2004 and 2005	**6,722,277**	**2,555,831**

Series C Preferred shares	**Number**	**$**
Series C preferred shares outstanding, August 31, 2003	26,842,847	3,323,547
Series C shares issued for cash (c)	2,130,000	255,600
Series C shares to be issued (d)	2,343,000	281,160
Series C shares issued on conversion of notes [note 5(a)]	2,840,416	383,722
Series C shares issued on conversion of interest [note 5(a)]	364,633	43,756
Series C shares to be issued (e)	850,000	102,000
Series C shares converted to Common	(500,000)	(60,000)
Series C share issue costs	—	(12,112)
Series C Preferred Shares Outstanding, August 31, 2004	34,870,896	4,317,673

Series C Shares issued for cash (f)	1,080,750	129,690
Series C Shares to be issued (g)	(4,273,751)	(512,850)
Series C Shares issued (g)	4,273,751	512,850
Series C Shares converted to Common	(2,410,000)	(289,200)
Series C Preferred Shares outstanding, August 31, 2005	**33,541,646**	**4,158,163**

Series C Warrants	**Number**	**$**
Series C Warrants outstanding, August 31, 2003	15,206,931	—
Series C Warrants cancelled for Series C Preferred shares issued (b)	(2,320,882)	—
Series C Warrants to be issued on completion of offering (c)	2,130,000	—
Series C Warrants to be issued on completion of offering (d)	1,171,500	—
Series C Warrants to be issued on completion of offering (e)	425,000	—
Series C Warrants outstanding, August 31, 2004	16,612,549	—
Series C Warrants to be issued on completion of offering (f)	540,377	
Series C Warrants to be issued on completion of offering (g)	(8,976,759)	—
Series C Warrants issued (g)	8,976,759	—
Series C Warrants expired	(12,886,048)	—
Series C Warrants Outstanding, August 31, 2005	**4,266,878**	**—**

Common Share Warrants	**Number**	**$**
Common Share Warrants outstanding August 31, 2004 and 2005	—	—
Total Share Capital at August 31, 2005		**29,744,546**

Common Shares

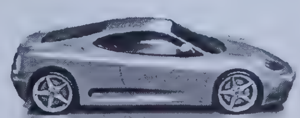
a) At August 31, 2004 there are 1,618,335 common shares held in escrow under an agreement dated May 18, 1999, pursuant to the requirements of the Alberta Securities Commission and the former Canadian Venture Exchange in connection with the reverse takeover of Megawheels. These shares are releasable on various release dates ending November 18, 2009.

Preferred Shares

b) During September, 2003 the Company entered into an agreement with the holders of 6,564,584 Common share warrants and 12,200,264 Series C warrants whereby the holders will permit the cancellation of warrants held by them, for no cash consideration, in order to leave the fully diluted capital structure unchanged. Accordingly, during the fiscal year ended August 31, 2004, 6,564,584 Common share warrants and 2,320,882 Series C warrants were cancelled as a result of new share and warrant issuances during this period.

c) Between September, 2003 and January, 2004, the Company issued 2,130,000 Series C preferred shares for cash consideration of $255,600. The shareholders will also receive 2,130,000 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.

d) Between January and April, 2004, the Company received subscriptions for 2,343,000 Series C preferred shares for cash consideration of $281,160. The shareholders will also receive 1,171,500 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.



e) During July and August, 2004, the Company received subscriptions for 850,000 Series C preferred shares for cash consideration of $102,000. The shareholders will also receive 425,000 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to the earlier of two years after the date on which the shares were issued or August 15, 2005.

f) Between October, 2004 and December, 2004 the Company issued 1,080,750 Series C preferred shares for cash consideration of $129,690. The shareholders will also receive 540,377 Series C warrants to purchase Series C shares of the Company at $0.12 per share. The warrants are exercisable at any time prior to December 23, 2005.

g) During the year, having received TSX Venture approval, the Company issued all the Series C preferred shares and warrants which had been previously subscribed for but not issued. The warrants expire on dates ranging from April 4, 2005 to December 23, 2005.

8. CONTRIBUTED SURPLUS

	2005 $	2004 $
Contributed surplus, beginning of period	**205,070**	71,872
Notes converted [note 5 (a)]	—	(42,872)
Stock-based compensation restatement - 2003	—	60,450
Stock-based compensation	**71,030**	115,620
Contributed surplus, end of period	**276,100**	**205,070**

9. STOCK OPTION PLAN

The Company has a stock option plan available to officers, employees, directors and other persons providing ongoing services to the Company. Under the plan, the number of common shares reserved for issuance must be a fixed number that is not greater than 20% of the issued and outstanding common shares, including issued and outstanding convertible Series B and C preferred shares. The shareholders fixed the number of common shares reserved for issuance on January 27, 2005 at 13,568,137 shares. The following is a continuity of stock options outstanding for which shares have been reserved:

	2005		2004	
	Options Outstanding (#)	**Weighted-Average Exercise Price $**	**Options Outstanding (#)**	**Weighted-Average Exercise Price $**
Opening	9,490,000	0.13	6,830,750	0.14
Granted	1,210,000	0.12	4,029,000	0.12
Exercised	—	—	—	—
Cancelled	(4,788,500)	0.13	(1,369,750)	0.15
Closing	5,911,500	0.13	9,490,000	0.13

The following summarizes information about stock options outstanding at August 31, 2005:

Exercise Prices $	Number Outstanding	Weighted-Average Remaining Contractual Life (years)	Weighted-Average Exercise Price $	Number Exercisable	Weighted-Average Exercise Price $
0.12	5,755,500	3.00	0.12	2,062,837	0.12
0.40	156,000	0.60	0.40	156,000	0.40
	5,911,500	2.90	0.13	2,218,837	0.14

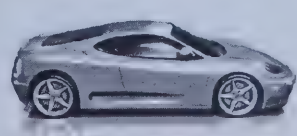
The expiry dates of these options range from April 18, 2006 to October 27, 2009.

At August 31, 2005, of the 5,911,500 stock options granted, 2,218,837 were fully vested. The remaining 3,692,663 stock options will vest as follows:

Vesting Date	Number of Shares Vesting
October 2005	46,666
April 2006	199,333
July 2006	99,998
October 2006	46,666
Performance Based	3,300,000
	3,692,663

During the year ending August 31, 2005, the Company granted 1,210,000 stock options with an exercise price of $0.12 per share, as per the Company's Stock Option Plan. The weighted average fair value of the stock options granted was $0.09 per option. The Company used the Black-Scholes option pricing model to estimate the fair value of the options at each grant date with the following assumptions:

Expected dividend yield	0.0%
Volatility in the price of the Company's shares	242.4%
Risk-free interest rate	2.83%
Expected life	5 years



10. NET CHANGE IN NON-CASH WORKING CAPITAL

	2005 $	2004 $
Trade accounts receivable	**214,668**	15,418
Inventory	**6,565**	3,104
Prepaid expenses	**(233)**	841
Accounts payable and accrued liabilities	**(197,062)**	(48,433)
Deferred revenue	**(28,247)**	34,915
Lease inducement liabilities	**25,557**	—
	21,248	5,845

11. SALE OF ASSETS

On May 31, 2005, the Company sold certain assets related to its Toronto-based Drive DMS business for cash proceeds of $750,000.

The book value of the assets sold was as follows:

	Cost $	Accumulated Depreciation and Amortization $	Net Book Value $
Computer equipment	222,877	215,141	7,736
Furniture and equipment	28,705	27,081	1,624
Computer software	2,166,065	2,166,065	—
	2,417,647	2,408,287	9,360

The sale was recorded as follows:

	$
Proceeds	750,000
Book value of assets sold	(9,360)
Gain on sale of assets	740,640

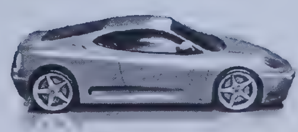
12. INCOME TAXES

The Company's computation of expected income tax expense (recovery) at 33.62% is as follows:

	2005 $	2004 $
Expected income tax recovery at 33.62% (August 31, 2004 - 34.87%)	**39,572**	(222,981)
Decrease (increase) in tax benefit resulting from:		
Future tax asset valuation allowance	**(69,571)**	206,347
Higher effective foreign tax rates	**(544)**	(8,071)
Non-deductible expenses	**30,553**	25,550
Non-taxable portion of capital gains	**—**	(845)
Reduction in future income tax assets due to tax rate changes	**—**	249,671
Reduction in valuation allowance as a result of tax rate changes	**—**	(249,671)
Income tax recovery	**—**	—

The components of the Company's future tax assets and liabilities are as follows:

	2005 $	2004 $
Future tax assets:		
Net operating loss carryforwards	**5,657,019**	5,623,148
Cumulative eligible capital	**6,625**	6,625
Excess undepreciated capital cost over net book value	**3,626,107**	3,708,131
Share issue costs	**18,729**	37,982
Deferred lease inducements	**8,592**	—
Total future income tax assets	**9,317,072**	9,375,886
Valuation allowance	**(9,317,072)**	(9,375,886)
Net future income tax assets	**—**	—



The Company has provided a valuation allowance for the full amount of net future income tax assets in light of the history of operating losses since its inception.

At August 31, 2005, the Company has non-capital losses carried forward for Canadian and International income tax purposes. The years of expiry of the Canadian losses are as follows:

	$
2006	761,134
2007	6,498,320
2008	5,501,756
2009	1,695,625
2014	405,189
2015	180,448
	15,042,472

The losses for the United States operations of approximately $370,000 expire between 2022 and 2025, the losses for the United Kingdom operations of approximately $1,551,000, and the losses for the Ireland operations of approximately $16,000 may be carried forward indefinitely.

13. COMMITMENTS AND CONTINGENCIES

In connection with entering into the premise lease which commences May 31, 2005, the Company received a lease inducement of $25,557, representing four months of free minimum rent. This amount will be deferred and amortized on a straight-line bases over the term of the lease. This lease has been included in the future annual lease payments disclosed below.

The Company has commitments for equipment leases and leased premises. The lease terms expire on dates ranging from September 2005 to August 2010. The lease commitments are as follows:

	$
Year ended August 31, 2006	82,883
2007	85,363
2008	89,212
2009	93,445
2010	95,494
	446,397

The Company is, from time to time, involved in various legal and other proceedings which arise in the ordinary course of operating its business. In the opinion of management, the amount of ultimate liability, if any, with respect to these actions will not materially affect the financial position or results of operations of the Company.

14. FINANCIAL INSTRUMENTS

Financial instruments consist of cash and cash equivalents, trade accounts receivable, accounts payable and accrued liabilities, and capital lease obligations. There is no material difference between the carrying value of these instruments and their fair value.

A substantial portion of the Company's accounts receivable are with companies in the media industry both in Canada and abroad. The Company extends unsecured credit to these companies, and therefore, the collection of accounts receivable may be affected by changes in economic or other conditions and may impact the Company's overall credit risk. Management believes the credit risk on these amounts is low due to the size and reputation of the companies to which they extend credit. To date, the Company has not experienced any material losses on the collection of these receivables.

The Company's activities involve purchases and sales of certain products and services that are denominated in foreign currencies. These activities result in an exposure to the fluctuations in those foreign currencies.

15. SEGMENT INFORMATION

The Company's activities are conducted in one operating segment and are carried out in four geographic segments consisting of Canada, United States, United Kingdom, and Ireland. All geographic segments derive revenues from reverse publishing and technology solutions that link the media and automotive and real estate sectors. Revenues are attributed to countries based on location of customer.

			2005		
	Canada	**United States**	**United Kingdom**	**Ireland**	**Total**
	$	**$**	**$**	**$**	**$**
Revenue	**1,437,619**	**15,285**	**43,316**	**611,151**	**2,107,371**
Capital assets	**96,695**	**—**	**—**	**1,561**	**98,256**

			2004		
	Canada	United States	United Kingdom	Ireland	Total
	$	$	$	$	$
Revenue	1,625,848	46,696	284,031	638,741	2,595,316
Capital assets	326,693	—	—	3,075	329,768

16. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's financial statement presentation.

BOARD OF DIRECTORS

T. Christopher Bulger, CFA
Chairman and Acting CFO
Megawheels Technologies Inc.

John Byrne, B.Comm.FCA
Director
Megawheels Technologies Inc.

Kenneth Hardy, PhD
Professor of Marketing
Richard Ivey School of Business

Robert F. Jolly
President and CEO
Megawheels Technologies Inc.

James Robert McPherson
Partner
McPherson L'Hirondelle Associates

Chuck Walker
President and CEO
The Walker Group

MANAGEMENT TEAM

T. Christopher Bulger, CFA
Chairman and Acting CFO

Robert F. Jolly
President and CEO

Linda J. MacKenzie
Vice President, Operations

James Lawyer
Vice President, Sales and Marketing

Danielle Leger, CMA
Corporate Controller and Assistant Corporate Secretary

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company of Canada
600, 530 – 8th Ave. S.W.
Calgary, AB Canada T2P 3S8

AUDITORS

Ernst & Young LLP
Chartered Accountants
1000, 440 – 2nd Ave. S.W.
Calgary, AB Canada T2P 5E9

LAWYERS

McCarthy Tetrault
Barristers & Solicitors
Suite 3300, 421 7th Ave. S.W.
Calgary, AB Canada T2P 4K9

CORPORATE SECRETARY

Peter Stone
Barrister & Solicitor
1922 Bowness Road N.W.
Calgary, AB Canada T2N 3K6

Danielle Leger
Assistant Corporate Secretary
Unit B, 4715 - 1st Street SW
Calgary, AB Canada T2G 0A1

SHARE INFORMATION

As of November 15, 2005	
Shares Issued and Outstanding	67,840,683
Fully Diluted	75,918,063
52 Week Hi Low	$0.13 - $0.04
Recent Price (November 15, 2005)	$0.04
Market Cap	$3,036,723

MEGAWHEELS TECHNOLOGIES INC.

Unit B, 4715 - 1st Street SW, Calgary, Alberta, Canada T2G 0A1
1.888.867.3334 • info.megawheels.com